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EVIDENCE ON ETHICAL TAX PRACTICES BY COMPANIES LISTED ON THE GHANA STOCK EXCHANGE

Salahudeen Saeed, University of Professional Studies, Accra

ABSTRACT

The aim of this paper is to gain an understanding of tax behavior of companies, particularly multinationals. It draws on previously designed responsible and transparent tax behavior principles, guidelines, scorecards and benchmarks. The author examined 37 Ghanaian listed companies. The companies surveyed were grouped into three branches of industry: Consumer and Industrial Products and Services (n=17); Energy, Utilities and Resources (n=8) and Financial Services (n=12). The results show that Ghanaian listed companies are not fiscally responsible and transparent. The overall percentage of total points scored by the top 10 companies is 45%. Besides, overwhelming majority (73%) of the companies scored below the minimum amount (0-20 points). What is more, an overall transparency rating on the six principles of good tax governance is 29%. These insights have several implications for tax authorities and moral investors.

JEL: H25, H26

KEYWORDS: Ethics, Responsible Taxpayer, Tax Transparency

INTRODUCTION

Undoubtedly, taxation remains one of the ways corporations can make meaningful contributions to societies. Ethical tax practice is also a vital tool for corporations to achieve the United Nations Sustainable Development Goals (UN SDGs) and have a positive impact on the communities where they operate. It is in this game-changing backdrop that the Government of Ghana (GoG) in an effort to introduce enhanced tax responsibility and transparency measures passed the Transfer Pricing Regulations, 2012 (L.I 2186), Income Tax Act 2015, (Act 896) as amended, Income Tax Regulations, 2016 (LI 2244) and Revenue Administration Act 2016, (Act 915). Some of the legislative in-roads aimed at discouraging irresponsible and unethical tax behavior are: change in accounting date (section 18(3) of Act 896); indirect payments (section 27 of Act 896); Arm's length standard (section 31 of Act 896); Income Splitting (section 32 of Act 896); Thin Capitalization (Section 33 of Act 896); Change in Ownership (section 62 of Act 896);Temporary Concession (section 143 of Act 896) and general anti-avoidance rules (section 34 of Act 896). These measures notwithstanding, questions remain about corporate tax practice in Ghana and internationally. This paper therefore seeks to gain an understanding of tax behavior of companies, particularly multinationals.. Thus, this study will evaluate fairly companies listed on the Ghana Stock Exchange (GSE) on tax disclosures and practices, whereas prior research focused on understanding factors that influence compliance with the tax law. The results show that Ghanaian listed companies listed are not fiscally responsible and transparent. The remainder of this paper is organized as follows: First, the next section provides an inventory of initiatives on transparennt and responsible tax behavior. Secondly, the author discusses, data and methodology used in the study. The results are presented in the subsequent section. The paper ends with some concluding comments.

LIETERATURE REVIEW

This section summarizes the previous studies that examine responsible tax practices by companies. The body of literature on responsible tax behavior is small. Thus, the author also reviews the literature on voluntary initiatives by professional organizations. Cotrut and Munyandi (2018) provided an important paper on the prevalence of tax incentives in the world. They examined a total of 207 countries. The surveyed countries were segmented into five zones: Africa, Asia-Pacific; Europe; Latin America and the Caribbean and the Middle East. The results show that tax holidays and reduced tax rates were the most used tax incentives in the world. Moreover, of the 207 countries surveyed, 108 used these tax incentives: 106 countries used investment allowance and tax credits, 93 countries used Special Economic Zones (SEZs) and 47 countries implemented Research and Development (R&D) deductions. Other authors show the relevance of responsible tax behavior in addressing the challenges of Base Erosion and Profit Shifting (Tang, 2018, Pemberton & Majdanska, 2016, Enden, and Baisalbayeva, 2016 and Enden, Baisalbayeva, and Bronżewska, 2016). Dutch Association of Investors for Sustainable Development (VBDO) and PricewaterhouseCoopers (PwC) Netherlands (2019) conducted a comparative study on tax transparency of 77 Dutch listed companies Their methodology was based on the guiding good tax governance principles designed by VBDO and Oikos (2014). Their study points that Dutch listed companies are are more fiscally transparent than ever before in online and publicly available information . Professional Bodies, Business Associations, Non-Governmental Organizations (NGOs), and Intergovernmental Organizations (IGOs) have developed guidelines, benchmarks and scorecards on responsible tax behavior (CSR Europe and PwC Netherlands, 2019, Responsible 100, 2018, United Nations, 2018, The B Team, 2018, PwC 2015 and Oxfam, Action Aid and Christian Aid, 2015). The work here extends the work of Cotrut and Munyandi (2018) by examining the attitude of companies towards tax incentives.This paper extents the work of VBDO and PwC Netherlands (2019) by using set of empirical data to examine responsible tax practices by Ghanaian listed companies.

DATA AND METHODOLOGY

The scope of this study comprised all 37 listed companies on the Ghana Stock Exchange (GSE). The scope can further be divided into three branches of industry: (1) Consumer and Industrial Products and Services (n=17), Fast Moving Consumer Goods (FMCGs), Telecommunications, Manufacturing and Construction; (2) Energy, Utilities and Resources (n=8), Mining and Exploration, Oil and Gas, Renewable Energy and Utilities and (3) Financial Services (n=12), Banking, Insurance and Pensions. Further socio-*demographic* characteristics of survey respondents of the study are presented in Table 1.

Table 1: Social characteristics of survey respondents

Industry Distribution of Respondents	Consumer and Industrial Products and Services	45.94 Percent
	Energy, Utilities and Resources	21.62. Percent
	Financial Services	32.43 Percent

This Table illustrates socio-demographic information by sub-sample. For Age, M and SD were computed, whereas the author used Mdn and IQR for the ordinal scales Source: Field survey (2019)

Data collection took place between April 2019 and November 2019. The author collected data for the months of April 2019, June 2019, August 2019 and October 2019.In this study, 185 publicaly available documents were analyzed (e.g. annual reports, the tax strategy, the sustainability report, a transparency report, governance documents, strategy documents and so on) and 74 interviews conducted, covering 37 companies. First, using the GSE website, which contained information of all listed companies on the GSE, the companies' annual reports were reviewed together with other relevant and publicly available documents. Secondly, for each of the 37 companies in the study, several targeted questions were developed and then discussed in semi structured interview based on the benchmark developed for this study. Ninety-five Percent of the interviews were conducted face-to-face, with five percent conducted over telephone

Appendix A illustrates a detailed list of the questions used in this study, and was adapted from VBDO and PwC Netherlands' (2019) Tax Transparency Becnhmark, . In order to be able to reach an independent verdict on the Tax Transparency Benchmark, an independent tax expert was appointed by the author to weigh the results, assess the validity of the results and determine the rankings of the companies. This further helped in generating more valid and reliable data for the analysis. The respondents were identified and selected using snowball or referral sampling; the respondents then referred the author to acquaintances within their circles who would be willing to partiticape in the study.

The Blueprint for Responsible and Transparent Tax Behaviour principles designed by CSR Europe and PwC Netherlands (2019) served as the benchmark for this study. Each principle was further segmented into various elements and converted into measurable criteria. These measurable criteria were then tested against publicly available information and responses obtained through interviews. The author reviewed and thoroughly overhauled the CSR Europe and PwC Netherlands' Blueprint for Responsible and Transparent Tax Behaviour principles to better reflect the latest status, trends and developments on tax transparency from the perspective of (tax) laws, regulations and societal expectations in Ghana. This resulted in an adjustment of some of the principles and the addition of new principles.

The benchmark for this study thus, comprised six parts: Part one served to assessed the participants on how well they align taxation with value creation. The second part assessed participants on how well they develop the right processes to manage tax. Part three served to assess how participants disclose relevant tax information to the public. Part four assessed how well Participants manage their relationship with tax authorities. In part five, participants' attitude toward the impact of tax incentives on public finance was measured. Part six served to assess how well companies engage their stakeholders with their approach to tax. Simple percentages and frequency tables were employed for data analysis with the aid of Statistical Package for Social Sciences (SPSS). To ensure systematic data analysis, the author analyzed the data using a thematic analysis method. Some major themes that emerged from the data are discussed below.

RESULTS AND DISCUSSION

A quantitative and qualitative analysis of the outcomes of the study is provided in this section. In Table 2, the results per responsible and transparent tax behavior principle are presented. The results show that companies scored highest on Principle B: Tax Function Management and Governance and scored lowest on Principle E: Tax Incentives.

Table 2: Result per Responsible Tax Behaviour Principle

Responsible and Transparent Tax Behaviour Principles	Average % Scored by Companies Per Principle
Tax Planning Strategy	18%
Tax Function Management and Governance	37%
Public Transparency and Reporting	14%
Interaction with Tax Authorities	22%
Tax Incentives	0%
Building a Narrative to Accompany a Tax Strategy	24%
Aaggregated result	19%

This Table shows the results of listed companies on Ghana Stock Exchange (GSE) per responsible and transparent tax behavior principle. As described in the methodology section, marks could only be earned if the information is publicly available. Scoring is based on an assessment over financial year 2018. Each company was offered the opportunity to respond to the preliminary review. The author is displeased to report that 75% of the companies did not make use of this opportunity. Moreover, companies that provided feedback tend to also rank higher on the study. This would imply that these companies are more active and inclined to improve the degree of transparency with regard to their tax approach, which the author finds very refreshing. Source: Field survey (2019)

In Figure 1, the results of top ten companies' rankings by industry are presented. The results show that the Financial Services industry ranked highest with 45%, followed by the Energy, Utilities and Resources industry with 30%, with the Consumer and Industrial Products industry trailing with 25%.

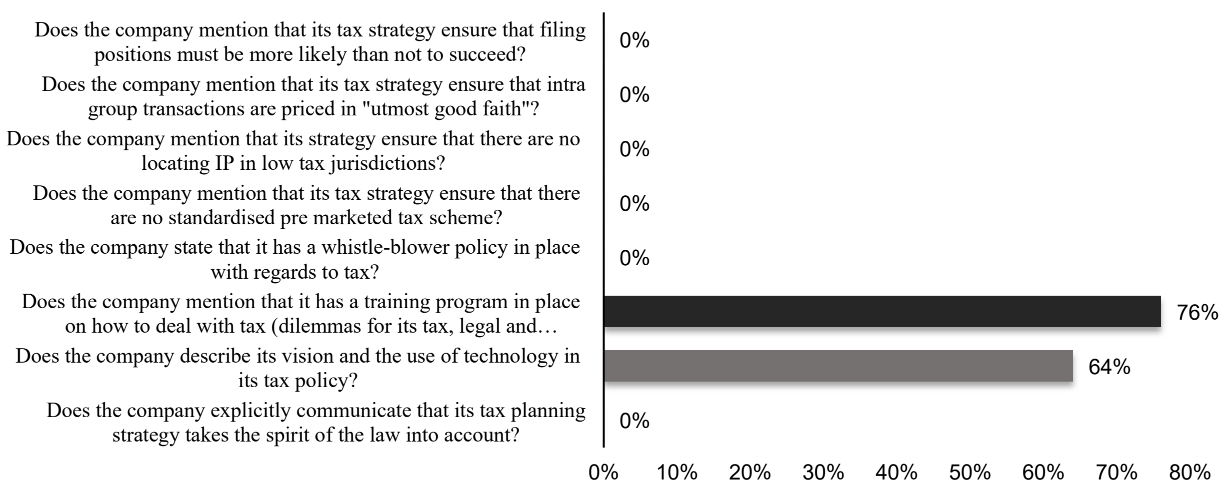
Figure 1: Top Ten Companies Ranking by Industry

This Table shows the results of of top ten companies ranking by industry. The number of companies that scored below minimum is 73%. Out of these lower scoring companies, 21% operate in the Consumer and Industrial Products and Services industry, 43% in the Energy, Utilities and Resources industry and 36% are in the Financial Services industry.Field survey (2019)

Tax Planning Strategy

Multinational enterprises operate on a global scale with a local presence. Tax Planning enables multinationals to manage their global tax structure to avoid double or even multiple taxation. However, tax planning can also result in (double) non-taxation when utilizing mismatches or using locally available preferential tax regimes and tax incentives intended for other purposes. Exploring the outer limits of tax regulations and the international tax system as part of the management of the group's tax position has led to artificial structures with tax "savings" as their only objective. This led to the erosion of local tax bases and profit shifting across jurisdictions. This in turn has triggered a wide range of policy responses by the Organization for Economic Cooperation and Development (OECD), the European Union (EU), tax authorities and others, and profound academic debate (CSR Europe & PwC Netherlands, 2019). In Figure 2, the results on companies' tax planning strategies are presented. The results show that most of the companies failed to align taxation with value creation. The author is very displeased to report that 92% of the 37 companies included in this study failed to communicate their views on tax either in a tax strategy or a tax policy.

Figure 2: Result on Principle A – Tax Planning Strategies

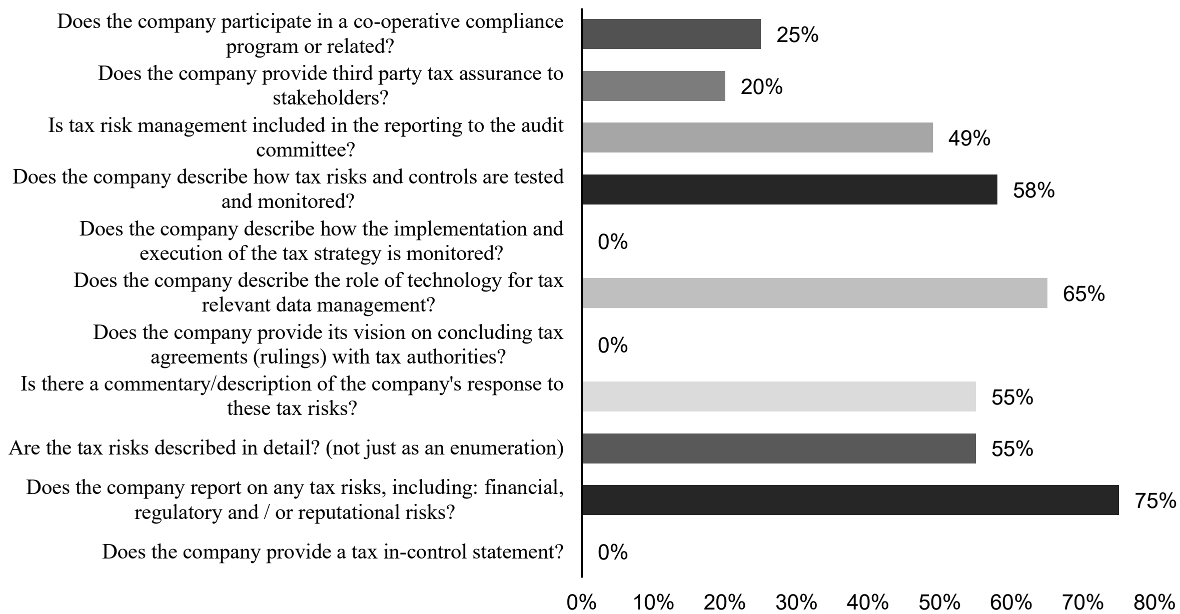


This figure shows the results on tax planning strategies. Participants were asked seven (7) set of questions on Tax Planning Strategies which required Yes or No answer and was adapted from VBDO and PwC Netherlands (2019) Tax Transparency Becnhmark. Source: Field survey (2019)

Tax Function Management and Governance

"Tax should not be seen as an isolated business component but as an integral part of the company and as part of the broader business. As such, tax should not be in the exclusive domain of the tax department. In principle, a company should declare profits and pay taxes where it conducts business activities and should be transparent on how this is done. Tax risk management is a proactive process that is demonstrably embedded within the risk management and internal control function of the company" (VBDO and PwC, 2019). In Figure 3, the results on companies' tax function management and governance are presented Companies scored highest on this principle; 75% of the companies reported on tax risks, including financial, regulatory or operational risks and 0% of the companies provided their vision on concluding tax agreements with tax authorities; 20% of the companies provided third party tax assurance to stakeholders. What is particularly encouraging is that 65% of the companies described the role of technology for tax relevant data management.

Figure 3: Scores on Principle B – Tax Function Management and Governance

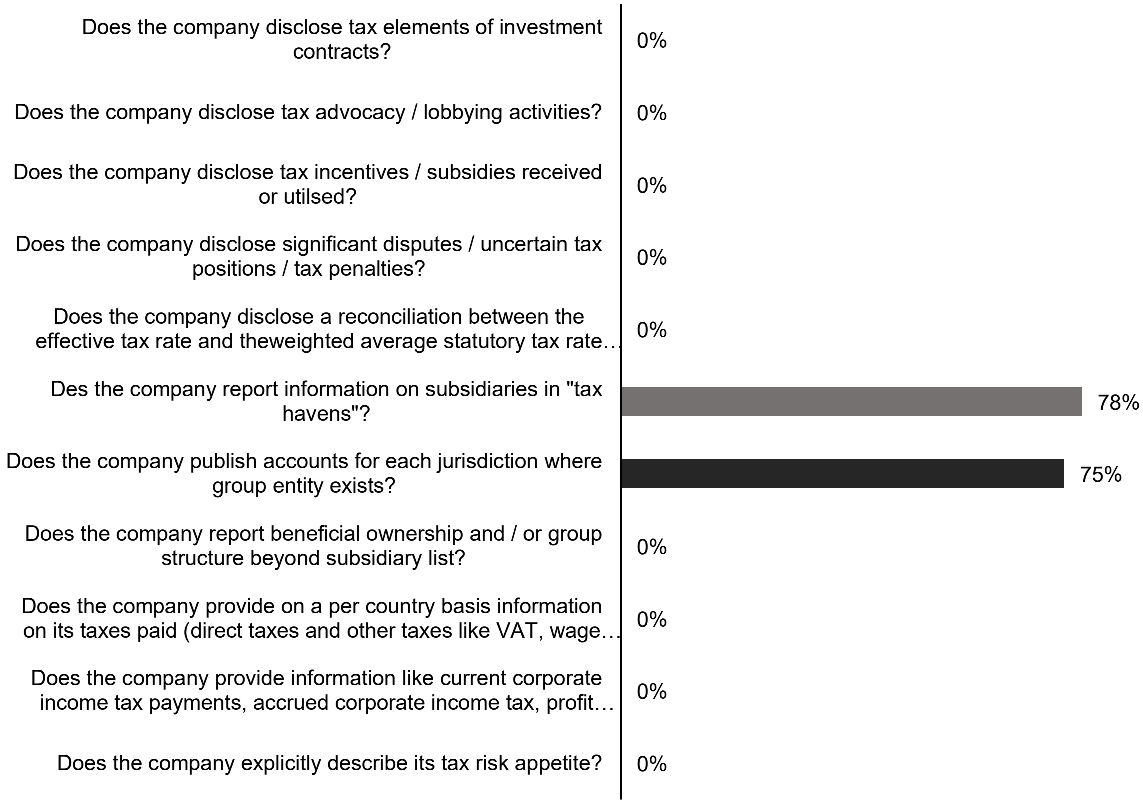


This figure shows the results on tax function management and governance. Companies were asked twelve set of questions on how well they develop the right processes to manage tax which required Yes or No answer and was adapted from VBDO and PwC Netherlands (2019) Tax Transparency Becnhmark. Source: Field survey (2019)

Public Transparency and Reporting

Firstly, due to the COVID-19 crisis, governments will generally become much more focused on raising revenue, increasing compliance and preventing the erosion of their national tax base due to tax planning, fraud and abuse. Secondly, there is growing public interest in large businesses paying their "fair" share of tax. This will lead to a surge in new – mandatory or voluntary – reporting and disclosure requirements and initiatives related to tax, both within the non-public domain as well as outside it. In the non-public domain, companies are expected to report not only to the tax authorities but also to the public on their tax strategy and how and where they pay taxes in a meaningful and understandable way. Are Ghanaian listed companies' tax transparent?. In Figure 4, the results on companies' public transparency and reporting are presented. The results show that 0% of the companies explicitly described their tax risk appetite, none of the companies provided information like current corporate income tax payments, accrued corporate income tax, profit before However, 75% of the companies published accounts for each jurisdiction where group entity exists

Figure 4: Scores on Principle C – Public Transparency and Reputing



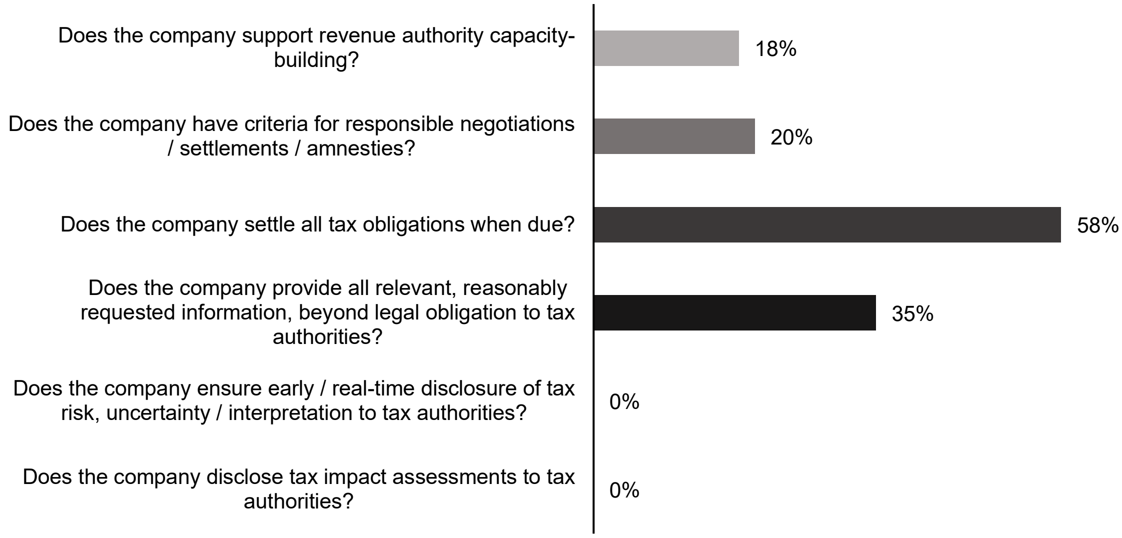
This figure shows the results on public transparency and reporting. This assessed how participants disclose relevant tax information to the public. Participants were posed twelve set of questions centered on Public Transparency and Reporting which required Yes or No answer and was adapted from VBDO and PwC Netherlands (2019) Tax Transparency Becnhmark.. Source: Field survey (2019)

Interaction with Tax Authorities

"Companies should be prepared to provide additional tax information to regulators, tax authorities and other stakeholders to provide for a certain level of assurance regarding tax data and processes. One way to create more certainty is through a tax in-control statement. The company provides their own tax in-control statement in which it declares to what extent the processes and operations worked and were in control. In addition, assurance can also be provided by a third party. Third party tax assurance gives stakeholders certainty about the performance of the tax processes" (VBDO and Pwc, 2019). Are Ghanaian listed companies effectively managing relationship with tax authorities?

In Figure 5 the results on companies' relationship with tax authorities are presented. The results show that companies scored third highest on this principle; 58% of the companies settled all tax obligations when due; 35% of the companies provided all relevant, reasonably requested information, beyond legal obligation to tax authorities; 0% of the companies provided a tax in-control statement.

Figure 5: Scores on Principle D – Interaction with Tax Authorities



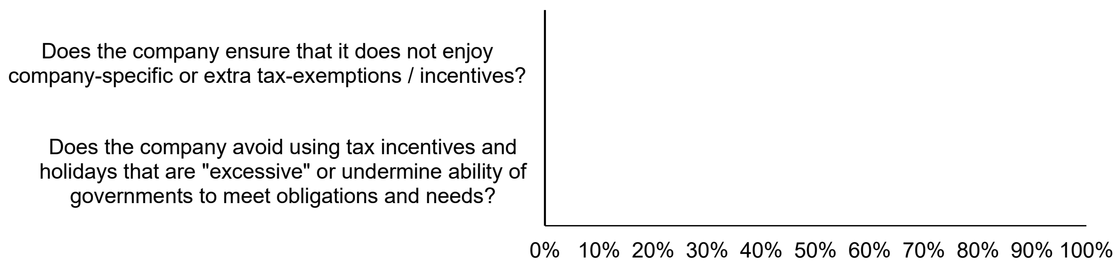
This figure shows the results on how well Participants manage their relationship with tax authorities and digital transformation of tax administration. . Participants were asked seven set of question which required Yes or No answers and was adapted from VBDO and PwC Netherlands (2019) Tax Transparency Becnhmark. (e.g. Does the company provide all relevant, reasonably requested information, beyond legal obligation to tax authorities? Yes = .35%).
Source: Field survey (2019)

<u>Tax Incentives</u>

The debate not only concerns the tax strategies of multinationals, but also the tax policies of governments. One example is the use of tax incentives. Why are they granted and how are they used? (White, 2019). Tax incentives can be introduced in different forms, resulting in a favorable tax treatment or a reduced overall tax burden for companies. Countries introduce the tax incentives to achieve two ultimate objectives; attracting foreign investment; and fostering economic growth (OECD, 2016). By attracting (foreign) investments and stimulating innovation, counties aim to improve their economic foundations and international competitiveness, investments and innovations should also lead to increased employment and stimulate economic growth and prosperity in counties. Well-designed and well-calibrated tax systems (including local tax incentives) also enable counties to attain Unated Nations Sustainable Development Goals (UN SDGs) through the mobilization of domestic resources (Intenational Chamber of Commerce (ICC), 2018). Given the importance of subsidies to the economic and social well-being of countries, a number of studies on their macroeconomic effects have seen the light (Kleman, and Van Parys, 2009). The impact of tax incentives on the economic growth and revenue collection is not uniform and varies between counties (UN & International Center for Tropical Agriculture (CIAT), 2018).

While in some countries, tax incentives may play a positive role in attracting new foreign investments that contribute to economic growth and development, in others, a particular tax incentive may lead to little investments, resulting in significant costs to governments (ibid). By granting tax incentives, national governments (and parliaments) underline which areas they consider to be important or even vital for the national economy. This is essentially a political choice made by the ruling governments of sovereign countries, which can sometimes trigger political controversy (CSR Europe & PwC Netherlands, 2019). Besides, tax incentives are usually not available to all taxpayers. They are often restricted to e.g. a certain industry or region. Because of its potentially selective nature, some stakeholders argue that the system of tax incentives should be closely monitored. What is the attitude of Ghanaian listed companies towards tax incentives? In Figure 6, the results on companies' attitude towards tax incentives are presented. The results show that companies scored zero on this principle. Of the two questions that were posed "Does the company avoid using tax incentives and holidays that are "excessive" or undermine ability of governments to meet obligations and needs?" and "Does the company ensure that it does not enjoy company-specific or extra tax-exemptions / incentives?", none of the companies scored a point.

Figure 6: Scores on Principle E – Tax Incentives



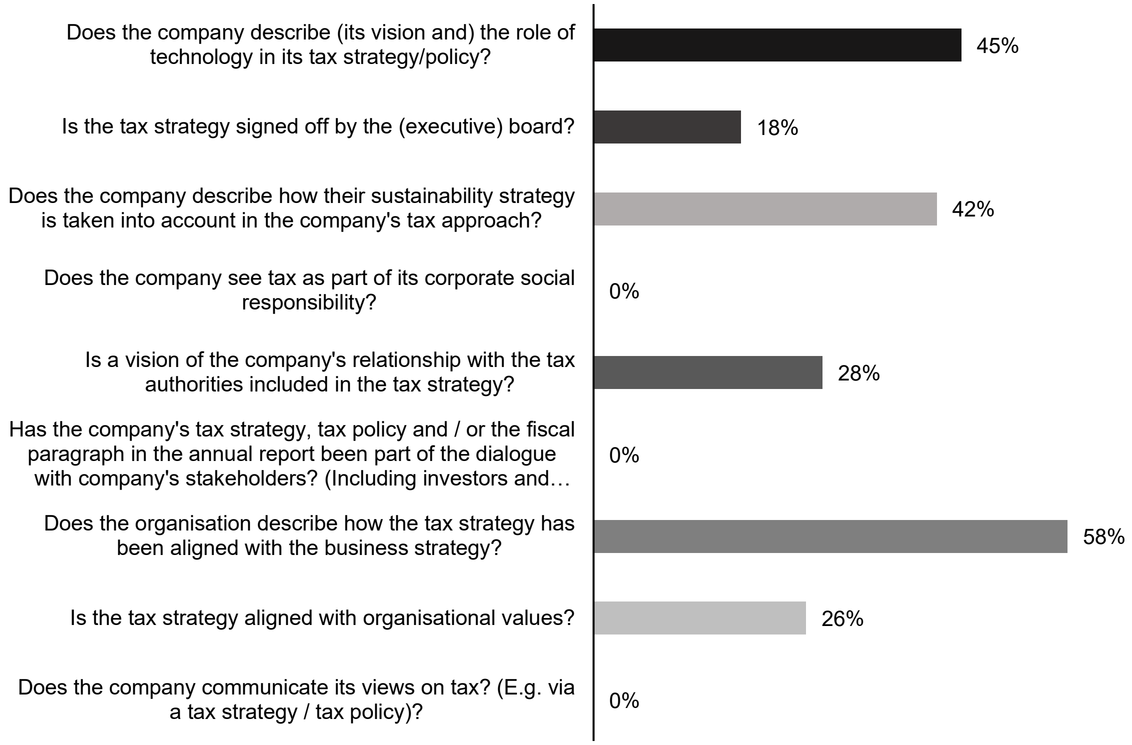
This figure shows the results on participants' attitude toward the impact of tax incentives on public finance are presented. Companies were asked to reply to two multiple choice questions about tax incentives by marking the correct answer from a set of two (e.g., "Does the company avoid using tax incentives and holidays that are "excessive" or undermine ability of governments to meet obligations and needs?"). The author constructed these items for the purpose of this study.
Source: Field survey (2019)

<u>Building a Narrative to Accompany a Tax Strategy</u>

Building a clear narrative about a company's tax strategy is increasingly important in the context of the still intensifying global debate on tax transparency and responsible tax behavior by corporations (The B Team, 2018). In this changing environment, some companies have started clarifications and context to accompany their tax strategy and tax principles. A narrative enables a company to describe the approach, internal processes and operations that support the implementation and execution of a tax strategy in greater detail (CSR Europe & PwC Netherlands, 2019). In order to ensure that the various different stakeholders within a business are aligned around the need to be more transparent about a company's approach to tax, it is critical that those involved seek internal alignment with, and ensure the support of, all relevant functions – involved in managing or communicating tax within the organisation. This will include, but not limited to, the tax department, investor relations, legal, sustainability or corporate responsibility, media communication and the finance function. In addition, organization's risk and audit committee, executive committee and the Board need to be aligned with the decision to publish detailed information on a company's tax position, particularly when this is done at a country-by-country level (ibid). To what extend do Ghanaian listed companies engage stakeholders with their approach to tax?

In Figure 7, the results on companies' engagement with stakeholders on their approach to tax are presented. The results show that none of the companies communicated their views on tax? (E.g. via a tax strategy / tax policy); 0% of the companies see tax as part of their corporate social responsibility and none of the companies included a vision of the company's relationship with the tax authorities included in their tax strategy.

Figure 7: Scores on Principle F – Building a Narrative to Accompany a Tax Strategy



This figure shows the results on how well companies engage their stakeholders with their approach to tax. Participants were asked nine set of question which required Yes or No answers (e.g. Does the company communicate its views on tax via a tax strategy / tax policy)?, Yes = .0%) and was adapted from VBDO and PwC Netherlands (2019) Tax Transparency Becnhmark.Source: Field survey (2019)

CONCLUDING COMMENTS

The aim of this paper is to gain an understanding of tax behavior of companies, particularly multinationals. It draws on previously designed responsible and transparent tax behavior principles, guidelines, scorecrds and benhmarks. The author examined 37 Ghanaian listed companies. The companies surveyed were grouped into three branches of industry: Consumer and Industrial Products and Services (n=17) ; Energy, Utilities and Resources (n=8) and Financial Services (n=12). The results show that Ghanaian listed companies are not fiscally responsible and transparent. The overall percentage of total points scored by the top 10 companies is 45%. Besides, overwhelming majority (73%) of the companies scored below the minimum amount (0-20 points). Out of these lower scoring companies, 21% operate in the Consumer and Industrial Products and Services industry, 43% in the Energy, Utilities and Resources industry and 36% are in the Financial Services industry. What is more, an overall transparency rating on the six principles of good tax governance is 29%. The paper argues that in order to promote enhaned responsible and transparent tax behavior,they ought to be a change in the dynamics of the current relationship between the three key players in tax administration: tax administrators; tax advisors and the taxpayer. Moving from a relationship that is characterized by confrontation to that of cooperation. This paper has some limitations. It considers only companies listed on the Ghana Stock Exchange (GSE). Therefore, the findings of this study may be difficult to generalize about all Ghanaian companies. This study can therefore be improved if it is done on all Ghanaian companies.

APPENDIX

Appendix A: Benchmark Methodology

A	Tax Planning Strategies	Point
	Does the company describe its vision and the use of technology in its tax policy?	2
	Does the company mention that it has a training program in place on how to deal with tax (dilemmas for its tax, legal and compliance officers)?	2
	Does the company state that it has a whistle-blower policy in place with regards to tax?	2
	Does the company mention that its tax strategy ensures that there is no standardized pre-marketed tax scheme?	2
	Does the company mention that its strategy ensures that there are no locating IP in low tax jurisdictions?	2
	Does the company mention that its tax strategy ensure that intra group transactions are priced in "utmost good faith"?	1
	Does the company mention that its tax strategy ensure that filing positions must be more likely than not to succeed?	1

B	Tax Function Management and Governance	
	Does the company provide a tax in-control statement?	2
.	Does the company report on any tax risks, including: financial, regulatory and / or reputational risks?	2
	Are the tax risks described in detail? (not just as an enumeration)	2
	Is there a commentary/description of the company's response to these tax risks?	2
	Does the company provide its vision on concluding tax agreements (rulings) with tax authorities?	2
	Does the company describe the role of technology for tax relevant data management?	2
.	Does the company describe how the implementation and execution of the tax strategy is monitored?	2
	Does the company describe how tax risks and controls are tested and monitored?	2
	Is tax risk management included in the reporting to the audit committee?	2
	Does the company provide a tax in-control statement?	2
	Does the company provide third party tax assurance to stakeholders?	2
	Does the company participate in a co-operative compliance program or related?	2

C	Public Transparency and Reporting	
	Does the company explicitly describe its tax risk appetite?	2
	Does the company provide information like current corporate income tax payments, accrued corporate income tax, profit before income tax, accumulated earnings and FTE's on a country-by-country basis? (In case the company is domiciled in only one jurisdiction, this question refers to this jurisdiction)?	2
	Does the company provide information on its taxes paid and government subsidies on a per country basis? (if the company operates in only one jurisdiction, this question refers to this jurisdiction.?	2
	Does the company report beneficial ownership and / or group structure beyond subsidiary list?	2
	Does the company publish accounts for each jurisdiction where group entity exists?	
	Des the company report information on subsidiaries in "tax havens"?	2
	Does the company disclose a reconciliation between the effective tax rate and the weighted average statutory tax rate reconciliation (either numerical or in percentages)?	2
	Does the company report on any tax risks, including: financial, regulatory and / or reputational risks?	2
	Does the company disclose significant disputes / uncertain tax positions / tax penalties?	2
	Does the company disclose tax incentives / subsidies received or utilised?	2
	Does the company disclose tax advocacy / lobbying activities?	2
	Does the company disclose tax elements of investment contracts?	2

D	Interaction with Tax Authorities	
	Does the company disclose tax impact assessments to tax authorities?	2
	Does the company ensure early / real-time disclosure of tax risk, uncertainty / interpretation to tax authorities?	2
	Does the company provide all relevant, reasonably requested information, beyond legal obligation to tax authorities?	2
.	Does the company ensure that there is no reliance on cross boarder secrecy / to information exchange?	2
	Does the company settle all tax obligations when due?	2
	Does the company have criteria for responsible negotiations / settlements / amnesties?	2
	Does the company support revenue authority capacity- building?	2

E	**Tax Incentives**	
	Does the company avoid using tax incentives and holidays that are "excessive" or undermine ability of governments to meet obligations and needs?	2
.	Does the company ensure that it does not enjoy company-specific or extra tax-exemptions / incentives?	2

F	**Building a Narrative to Accompany a Tax Strategy**	
	Does the company communicate its views on tax? (E.g. via a tax strategy / tax policy)?	2
	Is the tax strategy aligned with organizational values?	2
	Does the organisation describe how the tax strategy has been aligned with the business strategy?	2
	Has the company's tax strategy, tax policy and / or the fiscal paragraph in the annual report been part of the dialogue with company's stakeholders? (Including investors and civil society organizations)?	2
	Is a vision of the company's relationship with the tax authorities included in the tax strategy?	2
	Does the company see tax as part of its corporate social responsibility?	2
	Does the company describe how their sustainability strategy is considered in the company's tax approach?	2
	Is the tax strategy signed off by the (executive) board?	1
	Does the company describe (its vision and) the role of technology in its tax strategy/policy?	1

This appendix shows a detailed list of indicators and their respective scores and was adapted from VBDO and PwC Netherland' (2019) Tax Transparency Becnhmark. Assessment was based on publicly available information and responses obtained from interviews conducted

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BIOGRAPHY

Salahudeen Saeed is a Certified Public Accountant and a Taxation and Fiscal Policy lecturer at University of Professional Studies, Accra (UPSA). He also serves as a Tax and Financial Advisory Manager for the Ghana Center for Democratic Development (CDD Ghana). His research interest includes tax accounting from either an archival or behavioral research perspective